

Message Text

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TO AMEMBASSY TEHRAN
AMEMBASSY ABU DHABI
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USINT BAGHDAD
AMEMBASSY CARACAS
AMEMBASSY DOHA
AMEMBASSY JAKARTA
AMEMBASSY KUWAIT
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AMEMBASSY LIBREVILLE
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SUBJECT: TREASURY ASSISTANT SECRETARY FOR INTERNATIONAL
AFFAIRS C. FRED BERGSTEN'S MEETING WITH UAE CURRENCY BOARD
MANAGING DIRECTOR ABDUL MALEK AL-HAMAR

BEGIN SUMMARY: IN A FRIENDLY MEETING HELD IN THE ASSISTANT
SECRETARY'S OFFICE ON JULY 17, 1978, AL-HAMAR ASKED IF THE

U.S. COULD STABILIZE THE DOLLAR. HE SAID THERE WAS SENTIMENT IN OPEC COUNTRIES FOR A 3-5 PERCENT OIL PRICE INCREASE. BERGSTEN DISCUSSED THE MEASURES BEING TAKEN BY THE U.S. TO STRENGTHEN THE DOLLAR, AND HE NOTED THE SHORT-TERM ACTIONS BEING TAKEN TO REDUCE MARKET INSTABILITIES. IN RESPONSE TO AL-HAMAR, BERGSTEN SAID THAT THE RECENT PROPOSAL OF A EUROPEAN MONETARY SYSTEM HAD NOT BEEN FULLY ELABORATED, SO HE COULD NOT RENDER JUDGMENT ON IT. IN RESPONSE TO AL-HAMAR, BERGSTEN SAID THERE WAS LITTLE ENTHUSIASM FOR THE PROPOSED SUBSTITUTION OF SDRS FOR DOLLARS BY THE IMF, ALTHOUGH THE U.S. IS WILLING TO HAVE THE IMF STUDY THE IDEA. ALSO PRESENT WERE DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL MONETARY AFFAIRS LISLE WIDMAN, AND REPORTING OFFICER DWIGHT WOLKOW. END SUMMARY.

1. AFTER BEING INVITED TO VISIT THE UAE, BERGSTEN SAID THAT TREASURY OFFICIALS WERE TENTATIVELY PLANNING TO VISIT THE MIDDLE EAST THIS FALL, AND INQUIRED IF MID-NOVEMBER WOULD BE A GOOD TIME. AL-HAMAR SAID YES.

2. AL-HAMAR THEN ASKED ABOUT U.S. POLICY WITH REGARD TO THE DOLLAR. HE SAID THAT THE FALLING DOLLAR WAS CURRENTLY VIEWED AS RELATED TO U.S. DOMESTIC ENERGY PROBLEMS, AND THAT THE DECLINE WOULD HALT ONCE THE ENERGY PROGRAM WAS IN PLACE.

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3. BERGSTEN REPLIED THAT THE U.S. IS VERY CONCERNED ABOUT STRENGTHENING THE DOLLAR, AND THAT OUR POLICY TO DO THIS HAS THREE ELEMENTS: TO REDUCE OUR DEPENDENCE ON IMPORTED ENERGY, TO REDUCE DOMESTIC INFLATION IN ORDER TO IMPROVE U.S. COMPETITIVENESS, AND TO INCREASE U.S. EXPORTS. BERGSTEN SAID THAT THIS POLICY HAS THE HIGHEST LEVEL OF SUPPORT AND THE PRESIDENT HIMSELF SPELLED IT OUT IN HIS SPEECH OF APRIL 11, 1978, A COPY OF WHICH WAS PROVIDED AL-HAMAR.

4. BERGSTEN SAID THERE IS WIDESPREAD CONSENSUS IN THE U.S. THAT THE BASIC THRUST OF FISCAL AND MONETARY POLICY IN 1978 AND 1979 WILL BE ANTI-INFLATIONARY. FIRST OF ALL, THE ADMINISTRATION HAS DECIDED THAT, WITH THE IMPROVED RATE OF UNEMPLOYMENT, THE FOCUS OF ECONOMIC POLICY SHOULD BE PLACED ON INFLATION. SECOND, CONGRESSIONAL PRESSURE IS NOW FOR SPENDING CUTS. FINALLY, THE PASSAGE OF PROPOSITION THIRTEEN IN CALIFORNIA INDICATES WIDESPREAD POPULAR SUPPORT FOR CUTTING BUDGETS AND FIGHTING INFLATION. THE FEDERAL GOVERNMENT HAS ALREADY ACTED TO REDUCE THE BUDGET DEFICIT, AND THE FY 1980 BUDGET NOW BEING PREPARED BY THE ADMINISTRATION WILL INCLUDE A SHARP REDUCTION IN

THE DEFICIT.

5. IN ADDITION, A TIGHTER MONETARY POLICY IS ALREADY BEING PURSUED. INTEREST RATES ARE HIGH AND MAY CONTINUE TO RISE, ALTHOUGH NOT SO MUCH AS TO CHOKE OFF GROWTH. AS A RESULT THERE IS NOW AN INTEREST RATE DIFFERENTIAL BETWEEN THE U.S. AND OTHER COUNTRIES THAT CAN BENEFIT THOSE WHO INVEST IN THE U.S.

6. AL-HAMAR ASKED ABOUT THE OUTLOOK FOR THE U.S. TRADE DEFICIT, NOTING THAT A PRIVATE NEW YORK CONSULTANT FIRM WAS FORECASTING A 14 BILLION DOLS. INCREASE IN CY 1978. BERGSTEN SAID THAT THIS FIGURE WOULD APPEAR TO BE THE ANNUAL RATE OF THE FIRST QUARTER 1978. BERGSTEN SAID THE LIMITED OFFICIAL USE

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FIRST QUARTER FIGURE WAS INFLATED DUE TO SEVERAL FACTORS, INCLUDING EXCESS STOCKING BY IMPORTERS OF IMPORTED STEEL

AND AUTOMOBILES. BEYOND THE FIRST QUARTER TREASURY EXPECTS IMPROVEMENT IN THE U.S. BALANCE OF PAYMENTS: FIRST THERE WILL BE SLOWER IMPORT GROWTH, PARTICULARLY IN STEEL AND AUTOS; SECOND, THE ECONOMIC GROWTH RATES OF THE U.S. AND FOREIGN COUNTRIES WILL MOVE CLOSER TOGETHER, AND THIS SHOULD HELP SLOW U.S. IMPORTS AND INCREASE U.S. EXPORTS; AND FINALLY, IN THE SECOND HALF OF 1978 AND THROUGHOUT 1979 WE SHOULD SEE THE RESULTS OF THE INCREASED PRICE COMPETITIVENESS OF U.S. EXPORTS.

7. AL-HAMAR ASKED WHAT IMPACT A THREE-TO-FIVE PERCENT OIL PRICE INCREASE WOULD HAVE ON THE U.S. BALANCE OF PAYMENTS. BERGSTEN REPLIED THAT IT WOULD RAISE U.S. IMPORT COSTS TWO TO THREE BILLION DOLLARS, ALMOST A 20 PERCENT INCREASE IN A CURRENT ACCOUNT DEFICIT OF ABOUT 15 BILLION DOLS., AND WOULD THEREFORE HAVE A SIGNIFICANT, ADVERSE IMPACT. BERGSTEN ALSO NOTED THAT THERE IS A WIDESPREAD BELIEF THAT OIL IMPORTS ARE THE LARGEST ELEMENT IN OUR BALANCE OF PAYMENTS PROBLEM, AND THAT IF OIL IMPORTS RISE DESPITE OUR EFFORTS, THEN IT COULD POSSIBLY ALSO HAVE A SERIOUS ADVERSE PSYCHOLOGICAL IMPACT.

8. AL-HAMAR SAID THAT THE INCREASED DOLLAR PRICE OF IMPORTS, WHICH ARE PRIMARILY FROM JAPAN, UK AND GERMANY, TOGETHER WITH AN EXPECTATION OF CONTINUED DEPRECIATION OF THE DOLLAR UNTIL THE END OF 1978, HAS LED THE PRIVATE SECTOR TO ARGUE THAT A 3-5 PERCENT INCREASE IN OIL PRICES IS NEEDED. HE SAID THAT, IN ADDITION, THE GOVERNMENTS WHICH RECENTLY MET IN LONDON INFORMALLY AGREED THAT THEY NEED MORE REVENUE. CONSEQUENTLY SEVERAL GROUPS ARE PRESS- LIMITED OFFICIAL USE

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ING FOR AN OIL PRICE INCREASE. BERGSTEN ASKED WHY THE UAE COULD NOT IMPORT MORE FROM THE U.S. WIDMAN POINTED OUT THAT THE PRIVATE SECTOR USUALLY HAS A SHORT-TERM VIEW AND TENDS TO OVERLOOK THE FACT THAT THERE HAVE BEEN SWINGS IN THE EXCHANGE RATE OVER THE LAST 5 YEARS, AND THAT THE DOLLAR IMPROVED SIGNIFICANTLY IN 1975 AND 1976 BEFORE IT BEGAN DECLINING IN 1977 AND 1978. AL-HAMAR SAID THIS FACT WAS RECOGNIZED, AND THAT THE GOVERNMENT HAD ADVISED THE PRIVATE SECTOR TO CONSIDER BUYING U.S. GOODS. HE SAID THAT THE GOVERNMENT ALSO ACKNOWLEDGED THAT AFTER A COUPLE OF GOOD YEARS IT WAS NOT UNREASONABLE TO EXPECT SOME HARDER YEARS.

9. AL-HAMAR THEN ASKED ABOUT THE U.S. POSITION WITH REGARD TO THE PROPOSED NEW EUROPEAN MONETARY SYSTEM. BERGSTEN SAID THAT THE U.S. HAS LONG SUPPORTED THE OBJECTIVE OF EUROPEAN INTEGRATION, AND RECOGNIZES THAT THIS MAY ENTAIL CLOSER MONETARY COOPERATION. HOWEVER, THE U.S. CANNOT RENDER FULL JUDGMENT ON THIS PROPOSAL UNTIL WE CAN FULLY

ANALYZE ITS IMPACT ON THE GLOBAL MONETARY SITUATION AND ON THE DOLLAR. WIDMAN NOTED THAT GISCARD AND SCHMIDT HAD ONLY LAID OUT THE BROAD OUTLINE OF THE PLAN, AND THAT THE EC HAS NOT AGREED ON THE DETAILS WHICH WOULD PERMIT AN EVALUATION.

10. AL-HAMAR ASKED IF THE PROPOSAL FOR THE SUBSTITUTION OF SDRS FOR DOLLARS WOULD BE RAISED AT THE UPCOMING IMF ANNUAL MEETING. BERGSTEN SAID THAT IT SEEMED UNLIKELY SINCE HE HAD NOT SEEN ANY SIGN OF ENTHUSIASM BY EITHER THE U.S. OR HOLDERS OF DOLLARS. WIDMAN SAID THAT THE PROPOSAL WAS LARGELY THE WORK OF THE IMF STAFF WHICH SOUGHT A MECHANISM TO OFFSET PARTIALLY THE INCREASED LIQUIDITY WHICH WOULD RESULT FROM A PROPOSED NEW SDR ALLOCATION WHICH THE IMF STAFF WAS ALSO RECOMMENDING. AL-HAMAR SAID THAT THE LDCS SOUGHT THE ADDITIONAL SDR ALLOCATION, AND LIMITED OFFICIAL USE

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THAT THE INDUSTRIAL AND OIL-PRODUCING COUNTRIES MUST NOT FORGET THE LDCS. BERGSTEN SAID THAT THE U.S. WAS OPEN TO CONSIDERATION OF A NEW SDR ALLOCATION. CHRISTOPHER

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